

## BSG Property Rating Working Group

### Initial review of the current regime for property taxes in respect of cable/duct infrastructure

#### Interim status report



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#### Introduction

The purpose of this status report is to present a summary of the issues presented by the current regime for property rating in respect of cable and duct infrastructure in the context of its potential impact on the roll out of competitive broadband networks in the UK.

The report starts by restating the original BSG intent and the background to its recommendation in 2002. This is followed by a summary of the Government's original response and subsequent activities, together with an outline of the key influencing factors and some suggestions for the next steps.

It should be noted that, whilst a variety of input has been received from various parties, the working group<sup>1</sup> feels that there is insufficient hard data (as opposed to anecdotal material) to draw firm conclusions at this stage, other than to reiterate the urgent need for the review and the need for it to be refocused and completed by 31 March 2005.

It should be noted also that this is a BSG report and that the recommendations below are those of the BSG, not those of the Government.

#### Original BSG Recommendation

In its second Annual Report, the Broadband Stakeholders Group (BSG)<sup>2</sup> recommended that Government should review the current regime for property taxes in respect of their application to cable/duct infrastructure as follows:

1. The government undertakes a review of the current regime/practices with a view to addressing the above shortcomings (see Annex 1) and assessing whether (a) there can be a reduction in the overall industry burden in line with EU policies and (b) a common basis for evaluation can be established that is consistent with principles of proportionality and affordability, and which is applicable throughout the converged Communications sector.

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<sup>1</sup> The working group has comprised Malcolm Taylor, representing the BSG (Chair), Ellen Buchanan (BT), Alan R Bradford (VOA), Dougald Robinson (UKCTA), Chris Rowsell (Ofcom) and Shiela Winter (DTI). The working group received input from an independent consultant, Colin Sharp of GVA Grimley.

<sup>2</sup> BSG 2<sup>nd</sup> Annual Report October 2002 Recommendation 13.4

2. Outstanding appeals casework should be expedited and the appeals process, in respect of telecommunications operators, should be accelerated.
3. For the period until 2005, when network assets are due to be reassessed, consideration of the granting of exceptional variations to taxation levels where (a) this would act to correct unfair asymmetries and bring UK into line with EU policy, e.g. Framework Directive (Art 8), Authorisations Directive (Art 13), (b) where the public interest test is met and (c) where such changes would meet any relevant EU regulations, including State Aid.

The reason for this BSG recommendation was that the communications industry is capital intensive and investment decisions are based on long-term business plans.

In view of what the communication industry sees as a significant rates burden, the point made in the BSG's 2<sup>nd</sup> Annual Report was:

*For companies seeking to enter the market, or for those wishing to expand their business into new areas, e.g. constructing 'middle/last mile' network infrastructure or using unbundled local loops to launch DSL services, the tax burden has seriously undermined the viability of a large proportion of business cases and has made access to capital and equity funding even more difficult.*

It is widely recognised that the industry has been through difficult financial times but, nevertheless, needs to continue to invest significantly in new infrastructure if the Government's broadband objectives are to be achieved. Furthermore, this investment will be against a background of rapidly changing technology, etc.

Therefore, as part of its remit, the BSG reviewed a number of areas that were potentially large expenditure items for the communications infrastructure providers and agreed that the area of business rates needed review to assess whether the overall level of business rates presented a barrier to investment in new communications infrastructure and whether it was timely to consider whether the different approaches used for different types of network, which have developed with the changes in the market, should be more closely aligned. The BSG view remains the same in 2004.

## **Government Response**

In response to the first of the BSG recommendations, the Government agreed that a review of the business rating system was appropriate, and that this should involve the DTI, ODPM, the Valuation Office and Oftel, in conjunction with BSG, with the original intention being to complete the review by summer 2003.

In response to the second of the BSG recommendations, the Government advised that the Valuation Office was willing to expedite appeals and allocate additional resources to achieve this, but noted that the success of an accelerated appeals process would largely depend on the prompt provision of the factual information that it needed to consider appeals. It pointed also to the fact that there is no provision in the Local Government Finance Act 1988 for exceptional relief to be granted to those operators on the Central Rating List but that those not on the Central Rating List can apply to their local billing authority for hardship relief.

It was agreed, subsequently, that the DTI, Valuation Office, Oftel and BSG would co-ordinate the development of terms of reference for independent analysis and would set

up a working group to manage this process. The target for completion was revised to summer 2004.

### **Terms of Reference for Independent Review**

The following terms of reference were agreed by the BSG in November 2003:

- To review the effects of the business rating system on the providers of communication apparatus and their possible affect on competition within the communications industry.
- To consider whether or not the assessment methodology is having a detrimental affect on the roll out of broadband, with special emphasis on the provision of broadband in rural areas and to isolated communities.
- To consider the methods of assessment as between leased and owned fibre and any possible double payment as between fibre lessees and the owners of the ducts in which the fibre is carried and any material differences between business rates payable on owned or leased fibre.
- To determine the scope of the works for Phase II of the project, subject to budget approval.

The working group has continued to analyse the various issues, which are very complex, and has seen also other influences coming into play, such as an increased focus on local loop unbundling and the preparations for the 2005 valuation round. In addition, it has received some input from a valuation expert on some areas covered by these terms of reference.

At this stage, it recognises that much more hard evidence needs to be gathered before firm conclusions can be reached in relation to the questions above and it recognises that the outcome of other developments in the market could influence its conclusions.

Therefore, it recommends that Phase II of the project should review the above terms of reference, draw more widely on expert advice and data and analyse the potential impact of other activities including the outcome of appeals and of the handling of local loop unbundling. Nevertheless, the working group believes that firm recommendations are reached before the end of the 1<sup>st</sup> Quarter of 2005 and looks to the DTI and ODPM in particular to support the next stage of the review.

### **Key Factors**

The working group has agreed that the following key factors should be taken into account.

#### **a. The communications industry has changed dramatically in recent years**

The structure of the current communications industry; i.e. one characterised by liberalisation and increasing competition, dates back to 1984 when legislation originally established the BT/Mercury duopoly together with some early cable (and mobile) operations. The competitive nature of the industry changed further following the 'duopoly review' in 1990/91, when the market was opened up to many new players – with the focus of Government policy being to achieve competing infrastructures to that provided by BT.

However, the environment changed again in 1997 when communications policy moved from encouraging infrastructure competition to encouraging services competition. The negative impact of this series of changes has been acknowledged in Ofcom's Strategic Review of Telecoms Phase 2 consultation.

As a consequence of these changes, newer entrants have been able to decide between own build or creating networks on the back of other operators' infrastructure (via leasing). This range of options has also been extended by the more recent encouragement of local loop unbundling.

In comparison, the business rates system originates from 400 years ago. It seeks to distinguish between assets that comprise the landlord's hereditament (unit of assessment being all the property that is within a single rateable occupation), which is to be taxed, and assets that relate to the business process of the tenant, which are not to be taxed. Certain named items of plant and machinery are assumed to be landlord's assets and part of the rateable hereditament. These include cables, wires, fibres and ducts (see Valuation for Rating (Plant and Machinery) (England) (Wales) Regulations 2000.) The rating system seeks a notional annual rental value for all property, whether let or not; this is the Rateable Value.

The last 20 years has seen the VOA and rating professionals seeking to apply the myriad rules derived from centuries of case law and legislation to a modern technology business. During this period the industry, in addition to BT being privatised, has seen many new companies enter the market and very significant amounts being invested in capital intensive infrastructure, some of which has been stranded, or is under deployed, as a result of the bursting of the dotcom bubble.

#### **b. Developments in technology have also been significant**

Historically, communications infrastructure was copper cable based (coaxial and twisted pair) and there is still copper based infrastructure in use in the majority of last mile today, particularly by BT.

During the 1990's, there has been a significant amount of fibre optic based infrastructure introduced by both BT and newer entrants. In terms of capabilities, as the 1990's progressed, cables with higher fibre counts (e.g. 48, 96, and 120 fibres) were used, as the marginal cost of installing additional fibre was trivial compared to the costs of opening up the highway. The expected expansion of the liberalised communications industry and the anticipated explosion in the demand for bandwidth underpinned the decisions to bring many fibres into service.

However, it should still be borne in mind that copper based cables perform the same basic task as fibre and newer developments, such as DSL, has renewed the life expectancy of copper.

In parallel, the technology used by the communications industry has advanced significantly. Not only did transmission speeds multiply but, in addition to advanced fibre production techniques and bi-directional working, technology such as Dense Wavelength Division Multiplexing (DWDM) was perfected and we have seen an increase in the capacity of a single fibre of some 2,500 fold in less than 20 years. Therefore, fewer fibres can now be deployed to provide the same capacity.

#### **c. Approaches to network build have reflected technology developments**

It is understandable that decisions to invest in new capacity will be influenced directly by a combination of policy and the technology available at the time. The earlier entrants to

the liberalised communications industry constructed networks largely through own-build. As the market expanded, entrants began to rent fibre from each other and, frequently, operators would swap fibres of equivalent length on each other's routes.

In addition, use was made of other underlying infrastructure that could support fibre optic cables. For example, Energis made use of the earth wire on the National Grid and many other Regional Electricity Companies also set up communications companies to make use of their local infrastructure in the same way. Use was made also of the ducting on the railway network by Global Crossing and Cable & Wireless, whilst many operators entered into agreements with the London Underground, and installed networks using gas transmission pipelines and the Thames Water infrastructure around London.

More recently new entrants to the market have designed and built national networks by simply leasing fibres from the pre-existing operators. Using DWDM, they are able to build sufficient capacity for many years of expected expansion.

**d. Varying methods of assessment have been applied (see Annex 2)**

BT's local loop is assessed as part of the entire network and valued by reference to the relevant receipts and expenditure of BT Plc. BT's current assessment, for the 2000 Rating List, uses this method, which is often referred to as the 'Profits Test'. The "Profits Test" method has been used to ascertain rateable value for over 100 years. It was developed and used for the valuation of the former utilities (gas, electricity, and water) before their rateable value was prescribed by means of a statutory formula.

Local loops are currently assessed on the 2000 rating lists to BT Plc by reference to BT Plc's receipts and expenditure, forecast over a 5-year period, despite the possibility that an alternative operator may be considered as more correctly being in rateable occupation of fully unbundled local loops. Partially unbundled local loops are considered by the VOA to remain in BT's paramount control and rateable to BT in any event.

As part of the local loop unbundling charge, there is an amount included for BT's business rates liability. (Note: It could be argued, however, that these cease to remain in the occupation of BT Plc for business rates and should pass to the operator that is using them to provide their service to their customer. ODPM, WAG, Ofcom and the VOA are seeking a permanent solution to this anomaly and a formal consultation will be undertaken with BT and other local loop operators within the next few months.

Cable TV networks are assessed by reference to de-capitalised cost of construction with an abatement to reflect the service penetration level and for lack of profitability. This is then translated into a 'Rateable Value' per home passed. The 2000 rating list figure was agreed between the VOA and the Cable TV operators at £8.50/home passed from 1 April 2000 and assumed a service penetration of 33%. An allowance to reflect greater competition from the increase in satellite dishes and competing telephone networks was agreed from 1 April 2002 and the figure reduced to £7.35/home passed.

Metropolitan Area Networks have been constructed by some operators within major business centres with the aim of attracting business customers. The VOA has sought to value these MANs by reference to fibre rents being paid for national networks but with a further uplift. The uplift in London was arrived at by considering the higher build costs and rental evidence in the London Underground.

Wireless broadband operators are assessed on a hybrid valuation, whereby the land on which the base stations are built is valued according to rental evidence, whilst the towers and buildings on the sites are valued by reference to their de-capitalised cost. Where sites are shared, the host is liable for the entire assessment and the operators have arranged a means of recharging a proportion of the liability to the sharers. (See Non Domestic Rating (Telecommunications Apparatus) (England) Regulations 2000 SI 2000/2421)

Trunk networks and back-haul are both assessed by reference to dark fibre rents paid between operators for national networks. Primarily, these rents were set in the boom years and took account of the cost of building the route (or the cost and delay should the potential lessee contemplate building its own alternative).

Often, two or more operators would jointly dig the highway, share the cost and split the ducts created, since in excess of 80% of the cost can be in trenching, backfilling and resurfacing. Nowadays, there is considerable oversupply of fibre and limited demand and the bargaining position of prospective lessors and lessees is reversed, with fibre being acquirable at nominal prices. However, the VOA would point to the fact that shared cost doesn't necessarily mean shared value.

**e. Infrastructure investment should reflect market demand and not be unduly inhibited by potential rating levels**

As mentioned above, most early entrants to the fixed line market built their own networks, as no alternative existed. In those days, transmission speeds were low and, to obtain the required capacity, many fibres were lit. Furthermore, speed to market was a key factor and it was imperative to have capacity in place as quickly as possible.

In addition, because the asset was owned, there was perceived to be no marginal cost of lighting further pre-existing strands. Business rates were, at the time, assessed with regard to the cost of construction of the route, including all ducts and fibres, with a stand back allowance to reflect the level of demand and the number of fibres actually lit.

Operators who were assessed in the 1995 rating lists were valued by reference to actual de-capitalised cost, infrastructure rents paid and wayleave rents; e.g. wayleaves granted on the railway, London Underground, agricultural land. For routes that had been constructed in the highway, the capital costs of construction were adopted. This was a hybrid valuation method using actual rents where available and costs where they were not.

However, during the life of the 1995 lists, there were significant pioneering and under utilisation allowances applied by the VOA. At the time, it was not fully appreciated by the industry that a growing market in telecoms would inevitably lead to such allowances being removed as market forces took over and rental evidence became available.

Furthermore, as technology advanced, operators were presented with a choice when needing additional capacity with, as mentioned above, later entrants being able to deploy DWDM equipment on minimal numbers of fibres and achieve the same capacity at a significantly reduced rate liability.

For the 2000 revaluation, the new market evidence was followed and rating applied to each lit fibre, which meant that there is a substantial additional operating cost to gaining capacity through lighting additional fibre. In other words, there is a perceived financial penalty for lighting higher numbers of fibres which can have the effect of encouraging

operators to review single fibre working, and incurring the cost of replacing perfectly sound equipment to minimise business rates.

In summary, given the changes in technology over the last 5-10 years, it is possible for an early entrant to be running a lower capacity network on a higher fibre count than a late entrant to whom he has more recently leased two fibres. As a result, the new entrant attracts a significantly lower rate liability for the physical assets employed but has to bear additional costs of new technology.

This has occurred in parallel with a major downturn in financial health of the market and, consequently, the various factors have combined to affect investment decisions. As suggested in the heading of this section, decisions on the provision of additional capacity should reflect market demand, be based on engineering judgements and not be unduly inhibited by potential rating levels. Although this can be allowed for, to some degree, in end allowances for obsolescence on the older multi lit fibre networks, this is subjective and would rely on the VOA and operators adopting a reasonable compromise solution.

**f. European electronic communications and services Directives provide some basic principles**

The EU's 1999 Review of the telecoms sector resulted in pro-infrastructure measures being taken in both the language adopted within the Authorisations Directive 2000/0188 (COD) and the Framework Directive 2000/0184 (COD), e.g.:

Within the Framework Directive, Article 8 states:

*The national regulatory authorities shall contribute to the development of the internal market by inter alia:*

*(a) removing remaining obstacles to the provision of electronic communications networks, associated facilities and services and electronic communications services at European level;*

*(b) encouraging the establishment and development of trans-European networks and the interoperability of pan European services; and end-to-end connectivity, ... etc*

Furthermore, this Article is cross referenced in Article 13 of the Authorisations Directive as follows:

*Member States may allow the relevant authority to impose fees for the rights ... to install facilities on, over or under public or private property, which reflect the need to ensure the optimal use of these resources. Member States shall ensure that such fees shall be objectively justified, transparent, non-discriminatory and proportionate in relation to their intended purpose and shall take into account the objectives in Article 8 of ... [the] Framework Directive.*

These Directives were transposed into UK legislation in July 2003, and it could be argued that the current rating mechanism is inconsistent with the intent of the Directives.

**g. The quinquennial nature of the process is not consistent with the pace of change**

While acknowledging the complexity of the UK's rating system, it is clear that the quinquennial nature of this taxation mechanism is not consistent with the changing pace of the market and technology and also, is unable to adjust quickly enough to the financial needs of the industry. Many would argue the need for a solution before 1 April

'05 or, in the alternative, at least an interim arrangement that is sufficiently robust to meet the primary concerns of the BSG and that takes appropriate account of the ODPM's proposed transition arrangements.

## Looking forward

There is no modern parallel for an industry that has gone from such highs to such lows in such a short space of time, certainly not within the life of the modern rating system (post the Local Government Finance Act 1988) and while Transitional Relief arrangements have been in place. Asset values have in most instances been written down by 95% or more since the height of the boom.

However, the health and development of the communications industry is a key component of the effective operation of the economy. Ongoing infrastructure investment is essential.

There are clearly numerous issues that need further review with the business rates system as applied to the telecommunications industry.

In essence, those players within the communications industry that are involved in the provision of that infrastructure are concerned primarily with providing capacity (i.e. circuits and bandwidth). They should not have to be overly concerned with finding the most rating efficient way of achieving it.

It is understandable that the fibre has been adopted as the measure of economic value as it is fibres that are leased between operators and they are the smallest unit of occupation that can be valued within the communications industry and rateable value is based on annual rental value.

Therefore, we must question the logic of a system that does not distinguish between those cases where routes comprising owned fibre have many lit fibres, but those that are rented only a minimum are lit when the same traffic flows over them and they have the same economic value to the operator. However, the rating system should be able to take this into account with end allowances for obsolescence.

It is clear from the various inputs to date that the review must now move towards a more detailed stage of activity that addresses in particular:

- **The current rigidity of process and framework against the background of the pace of change of the industry**

There is a need to recognise that telecommunications is a highly competitive market that has evolved immeasurably since 1993 and will continue to change apace. Thus, a system needs to be developed that reflects the dynamic nature of the market.

The existing rating framework is not flexible enough to adapt to changing circumstances e.g. in terms of the significant changes in quantity and price of fibre rents in recent years. This is something which, given the expected changes to networks and services (both fixed and mobile) in the next few years, may become increasingly relevant. It is likely also that the market will change materially over the next few years (in terms of both demand supply) and technology will continue to develop and present challenges to the rating system.

A more flexible approach is an imperative if the rigidities are not to stand out even more clearly in years to come.

The rating system is confined to looking at the economic circumstances as at the antecedent valuation date (AVD) two years before a list goes live, i.e. 1 April 1998 for the 2000 list and 1 April 2003 for the 2005 list. The VOA has to reflect the level of value as at the AVD and the rating system can only reflect changes due to physical circumstances, until the next revaluation. It is unfortunate that 1 April 1998 was probably the peak of the market and 1 April 2003 was the trough.

- **The current anomalies in the rating system**
- **The resource needs of the VOA to cope with the workload of assessment, reassessment and appeals**
- **The ability (and willingness) of the industry to provide information in a reasonable form and reasonable timescale**

The working group has considered a number of options that should, at least, benefit from more detailed analysis. For example,

**a. all telecommunications cables and fibres could be de-rated.** This would solve a number of difficulties in the current system including the identification effect of several operators in one duct, difficulties in identification of occupiers, and the misunderstandings of the valuation process and evidence.

**b. the smallest unit of assessment could be a duct, not a fibre.** With the de-rating of cables and fibres, the duct naturally becomes the smallest unit of assessment but it should be noted that, under current regulations, ducts become rateable only when occupied by cables, which would have different implications, in terms of rate reductions or increases, for different players.

**c. consideration could be given to an accelerated scheme for the communications industry** so as to make more funds available for rollout into new areas. The transitional relief scheme that is being proposed for the 2005 revaluation will mean that any reductions in rateable value at the revaluation will take until the 2009/2010 rating year to be achieved in full.

The inclusion of these options by the BSG is intended for discussion purposes and does not infer any prospect or acceptance that the Government will adopt them.

## **Guiding Principles**

Finally, the working group believes that Government and industry should establish a set of guiding principles along the lines of the following:

- Rating should be consistent with stated EU and Government objectives in relation to the achievement of the information society, including the broad economic objectives, pro-investment objectives (including the granting of Rights of Way over public and private land); and the sector-specific technical policies such as Local Loop Unbundling and whatever conclusions are drawn from the current Strategic Review of Telecoms being undertaken by Ofcom.

- The business rates burden should be consistent with the concepts of affordability, proportionality, geographic consistency and technological neutrality in relation to the converged communications sector.
- There should be maximum transparency in relation to process/procedure and any information that is not commercially sensitive to the operator concerned.
- There should be no material distortion of competition and no unnatural barrier to market entry, and where direct comparators exist, equivalent approaches should be used.
- The aim should be for simplicity of valuation methodology leading to ease of administration and matching of VOA administrative resources to planned need.
- The aim should be to achieve regulatory and legal certainty as a stimulus for the considerable capital investment that is foreseen for the UK communications sector over the coming years. This would point to (a) pre-agreement in a forward looking sense (b) removal of as much as possible of the financial risk associated with the acknowledged historical problems.

Government should view resolution as a high priority and, where secondary legislation proves insufficient to correct identified problems and create a stable and sustainable system, there should be a commitment to the allocation of Parliamentary time and effort to promote whatever primary legislative measures are necessary.

The working group believes that there should be appropriate recognition of the genuine financial hardship throughout the sector since 2001 and, although the VOA has granted allowances to reflect some of the problems arising from the downturn, there is an argument for the communications sector to benefit from similar levels of compassion demonstrated in relation to other short term problems, such as that towards farmers in the aftermath of foot & mouth epidemic and as a result of the London commercial property downturn in early '90s.

### **Timetable for completion**

In view of the range of options and the issues surrounding any change from the current methodology and case law, it is recommended that the current working party, which must have the appropriate specialists and be representative, should move the review to a next stage to analyse the above options, and any others that may be put forward, in more detail and to discuss these further with the appropriate parts of Government.

The working group acknowledges the ongoing support of the DTI to contribute funding towards this next stage and has set a target for completion of the work by 31<sup>st</sup> March 2005.

**3 December 2004**

**Extract from section 4.7.2 of BSG 2<sup>nd</sup> Annual Report****Non-Domestic Property Rating**

Under current arrangements, some 75-85% of long-line fixed operators' exposure to property tax is in respect of their cable/duct infrastructure, as opposed to buildings. For wireless operators, this proportion is lower but the actual value depends on the specific mix of infrastructure and as to whether their backhaul links are self-provided, subject to indefeasible rights of use, or rented.

For companies seeking to enter the market, or for those wishing to expand their business into new areas, e.g. constructing 'middle/last mile' network infrastructure or using unbundled local loops to launch DSL services, the tax burden has seriously undermined the viability of a large proportion of business cases and has made access to capital and equity funding even more difficult. There is also inconsistent valuation for tax purposes. Although the activity is essentially identical, there are three different approaches to valuation:

- Fixed operators with long established networks, such as BT and Kingston (within the Hull City boundary) pay property tax on the basis of the revenues they obtain from their network assets.
- New entrants are evaluated on the basis of their construction costs and
- Operators of cable TV networks are evaluated on the number of homes that their networks pass.

From a competition viewpoint, there is a fundamental need to establish a 'level playing field' particularly if public sector investment in civil infrastructure takes place as envisaged in Section 2 above. Such infrastructures would appear to attract no taxation when controlled by, say, a local authority, but would attract tax on being leased to a private company.

The 'contractors test' valuation method as applied to new entrants is calculated on the depreciated cost of constructing networks (decapitalised at a fixed rate from date of installation) at late 1990s prices, so operators are paying tax on a valuation basis, which is out of line with current written-down balance sheet values. New valuations will not take effect until the next review in 2005.

For new market entrants who have not yet become 'cash flow positive', the taxation is causing considerable delays in that stage being reached. Additionally, since new entrants are typically debt-financed during the start-up phase, property tax is damaging their chances of reaching long-term viability and acting as a very significant impediment to future competition.

For new entrant fixed operators, the consequence of the difference in evaluation methodologies has a further distorting effect when considering new network build, since new entrants are taxed on the entire construction cost, whereas incumbents pay only on the basis of incremental revenues.

### Valuation Methods

The valuation method adopted depends on the individual circumstances of the network in question and evidence available, but all methods seek to measure the annual rental value under the rating hypothesis. The rating hypothesis assumes a hypothetical tenant, a hypothetical landlord and a hypothetical rent, but the valuation is of the actual hereditament.

The accepted hierarchy is set out in descending order below, the highest-ranking method as follows:

- **Rental value based on the actual rent** on the hereditament adjusted to accord with the rating hypothesis and the AVD. (See Lands Tribunal case of Lotus & Delta Ltd v Culverwell (VO) and Leicester City Council 1976)
- **Rental value based on a comparison of actual rents paid** on similar hereditaments adjusted to reflect any differences and to accord with the rating hypothesis and the AVD. (See Lotus case)
- **Rental value based on the receipts and expenditure** (R & E) generated by the occupation of the rateable property and assets adjusted to accord with the rating hypothesis and the AVD. (See The Receipts and Expenditure Method of Valuation for Non-Domestic Rating, A Guidance Note, published by RICS Books)
- **Rental value derived from the adjusted de-capitalised cost** (CB) (at the statutory decap. rate – 5.5% for 2000 list) of building the hereditament at the AVD, including the land value (See the Contractor's Basis of Valuation for Rating Purposes, A Guidance Note, published by RICS books). Allowances are adopted to reflect age, obsolescence etc and a stand back and look view is taken to accord with the rating hypothesis and rental value.